In Light of New U.S. Tax Reforms on the Horizon, is Canada about to lose its Competitive Advantage in the Oil Sector? New School of Public Policy Report

For Immediate release September 12, 2017

CALGARY- Is Canada about to lose the competitive advantage it currently enjoys in attracting investment to its oil sector? With a U.S. tax reform package on the horizon, the answer could be yes. If the Republicans succeed in passing a version of their tax-reform proposals— Alberta will slide quickly from one of the most tax favourable destinations for oil investments to somewhere in the middle of the pack, and Saskatchewan will become one of the highest-taxed oil-producing jurisdictions. Also, should rising oil prices trigger higher royalty rates in both provinces, they will become even less competitive.

Today, The School of Public Policy with authors Daria Crisan and Jack Mintz released a report that measures the impact of potential U.S. tax reforms on Canadian competitiveness for the oil industry. It also ranks Alberta and Saskatchewan against other jurisdictions on tax rates on investment for 2017.

According to Mintz, "Canada may be about to lose the competitive advantage it currently enjoys in attracting investment to its oil sector, namely, its low corporate tax and royalty rates compared to the U.S. While we will start to know better the details of a U.S. tax reform package in the next month or so, two reform plans provide a basis to analyze potential impacts: the tax-reform "Blueprint" put forward last year by the Republican-controlled House of Representatives, and President Donald Trump's own reform proposals. Either one, or even a hybrid version of the two, would make tax and royalty effective tax rates on new investment in the U.S. oil industry significantly more attractive to investors."

Alberta, for example, which currently offers the lowest marginal effective tax and royalty rate (METRR) on conventional oil investments of all the Canadian provinces based on a $50 per barrel West Texas Intermediate price, also offers a lower METRR than nearly all comparable U.S. states measured (except Pennsylvania). But if the Republicans succeed in passing a version of their tax-reform proposals — and as a major campaign promise, they are facing great pressure to do so — Alberta will slide quickly from one of the most tax favourable destinations for oil investments to somewhere in the middle of the pack, and Saskatchewan will become one of the highest-taxed oil-producing jurisdictions. Yesterday's increase of BC's corporate tax is another blow to Canadian tax competitiveness.

It is unclear at the moment what will be the final shape and form of the corporate tax reform in the U.S., but Alberta and Saskatchewan policy makers need to understand this looming threat, and develop plans to respond to it if they hope to keep attracting investment to their provinces.

The report can be found online at www.policyschool.ca/publications/

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To request an interview with the author(s) or for more information please contact:

Morten Paulsen
403.220.2540
morten.paulsen2@ucalgary.ca